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BRIEFING NOTES FOR THE DIRECTOR

9 August to 8 September



CENTRAL INTELLIGENCE AGENCY

Office of Current Intelligence

DIA and DOS review(s) completed.

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SUMMARY

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USSR

Malenkov's 8 August speech outlines policies of new regime

Soviet premier Georgi Malenkov utilized the meeting of the Supreme Soviet on 8 August to make the most important and realistic statement of current Soviet policy since Stalin's death, particularly with regard to internal affairs. In Ambassador Bohlen's opinion, the proceedings at the Supreme Soviet and the attitude of the other Soviet leaders indicated that Malenkov, an extremely able orator, is unquestionably the dominant figure in present Soviet leadership. Malenkov particularly stressed the need for raising the living standard of the Russian people. He described the material welfare of the population as "the main task" of the current Five-Year Plan, and announced that production of consumer goods would be increased "at the expense of other sectors" of the economy.

In the field of agriculture, Malenkov announced important concessions to the Soviet peasantry, apparently in order to combat their traditional indifference to the expansion of agricultural production. With regard to the international situation, Malenkov appeared to be arguing that a detente in the cold war was feasible but only if the present power position of the USSR in Europe and Asia was not challenged. He devoted particular attention to the menace of revived German militarism in an evident attempt to convince the French that a bilateral agreement with Moscow might provide a security alternative to EDC.

Mentioning Beria's arrest only in passing, he pointedly warned that the new Soviet policies do not spring from weakness and supported this with an implication of Moscow's possession of the hydrogen bomb.

USSR likely to make new disarmament proposal

Soviet press comment following the USSR's thermonuclear explosion suggests that a new Soviet disarmament proposal may be presented in the forthcoming UN General Assembly. The Soviet government's announcement of its tests on 20 August included a statement that it had "more than once" proposed disarmament action under the supervision of the United Nations, and later comment emphasized selected quotations from the foreign press to the effect that Soviet possession of the H-bomb will give "new impetus" for outlawing such weapons.

A new Soviet proposal on disarmament may be similar to the Russian proposal in the UN in November 1951 for a "world conference" of all states, which followed Stalin's announcement in October 1951 that the USSR had carried out an A-bomb test.

Malenkov sets tempo for more positive policy toward Japan

Malenkov's statement on 8 August, attaching special significance to the normalization of relations with Japan and welcoming any steps the Japanese might take to throw off American "domination," appeared to mark a turn toward a more positive Soviet policy regarding Japan. Neither the Soviet Union

nor Communist China, however, has yet offered Japan any political or economic concession which the Japanese might logically accept as a quid pro quo for negotiations with the bloc. Present indications suggest therefore that Soviet policy will be designed to encourage the Japanese to take the initiative toward an overall peace settlement.

Soviet attitude toward new Iranian government:

Moscow's attitude toward the new pro-Western regime in Iran has apparently been guarded, but is still conciliatory. So-viet ambassador Lavrentiev protested to the new Iranian government about anti-Soviet demonstrations on 19 August. Zahedi told Ambassador Henderson on 1 September that the "Soviet embassy" had recently inquired about the policy of the new Iranian government toward the USSR.

Unconfirmed press reports, however, claim that "well-informed Iranian sources" state that the Soviet ambassador also offered Zahedi aid to ease Iran's financial crisis. These reports allege that following several meetings between the Soviet trade representative and the Iranian minister of national economy, a trade agreement was signed on 3 September.

While it is doubtful that the Kremlin will give Iran any extensive aid without a quid pro quo, the USSR may have made attractive trade offers during the recent Soviet-Iranian talks in Tehran. Such offers would probably be similar to

those included in the 10 June agreement which reportedly doubled the value of goods to be exchanged over that of previous years. Moscow may have offered Iran a large trade-credit agreement, such as the one recently concluded with Argentina. Iran has commodities for which the USSR may make cash payment -- an arrangement Tehran would welcome.

Big-four exchanges on Germany

The 15 August Sovietnote on Germany again suggests that the Kremlin continues to bolster the East German regime and has no interest in meeting Western terms for unifying Germany. The timing of the note, which resubmits a Russian peace treaty draft of March 1952, points instead to an attempt to upset Chancellor Adenauer's chance for re-election in September. However, the Soviet failure to propose more favorable terms appears to have helped Adenauer's campaign. The USSR's original 4 August answer to the West's invitation to talks on Germany apparently was designed to record Soviet advocacy of a conference covering a broad agenda for easing international tension and including Communist China.

The USSR again serves notice that it intends to maintain the East German regime by refusing to compromise on the crucial issue of holding free all-German elections prior to peace treaty discussions and under international supervision. It proposes to call a peace conference with the participation

of representatives of East and West Germany. It calls for a provisional government which would eventually hold elections free of outside interference.

The note's emphasis on the provisional government's role in establishing East-West German contacts indicates Soviet anticipation of a divided Germany for an indefinite time. By proposing elimination of reparations payments and limitation of occupation costs, the USSR is taking two steps to liberalize its occupation, probably attempting to decrease German resentment and opposition.

On 2 September the Western powers replied to the Soviet notes of 4 and 15 August. The West rejected both Soviet suggestions for a general conference with Communist China participating and for an East-West German meeting. Instead, the Western powers proposed that the four foreign ministers meet in Lugano on 15 October to consider only the German and Austrian questions. On the German side, first attention would be given to free elections and the status of an all-German government. Big-four exchanges on Austria

The Soviet government's 28 August reply to the Western invitation to a meeting of the Austrian treaty deputies again underlines the Soviet desire to discuss the Austrian question only in connection with the German problem. Moscow repeated its charge of 25 May that the state treaty discussions are not within the competence of the deputy foreign ministers,

but added that a solution of the German problem could contribute to an Austrian settlement.

The Kremlin's renewed demand for a complete and unconditional withdrawal of the abbreviated draft treaty is probably designed to generate British, French, and Austrian pressure on the United States for a firm advance commitment of the earlier long draft treaty, in order to head off any Western move toward its revision.

Soviet maneuvers in the UN related to Korean Political Conference

Soviet moves during the UN assembly session on Korea appear aimed primarily at exploiting the divergence of views between the US and other leading UN members regarding the character and scope of the political conference. The two resolutions introduced by Vyshinsky were mainly devices for undermining support for the US position.

Vyshinsky's affirmative vote on 27 August on the resolution inviting the USSR to participate in the conference, after
his failure in a move to delete the proviso "provided the other
side desires it," reflected Moscow's insistence on a round-table
conference with broad membership. Vyshinsky consistently opposed the US concept of a conference limited to the "two sides."
There have been no indications that the Communists will abandon
this position, endorsed by both Communist China and North Korea.

This attitude toward the UN recommendations probably foreshadows counterproposals designed to circumvent the UN endorsement of the US plan for the conference and to reopen the question during this fall's General Assembly session. It is possible that the Communists will suggest the participation in the political conference of some or all of the "neutral" and "neighboring" states mentioned by the two Soviet resolutions rejected by the UN assembly.

The Soviet representatives will probably attempt to link the question of the admission of Communist China to the UN, which Vyshinsky has promised to raise in the eighth General Assembly, with an effort to revive the controversy between the US and other UN members on Korean issues.

Chou En-lai's views on political conference issues expressed to the Indian and Swedish ambassadors on 17 August were identical with Vyshinsky's proposal in the UN on 18 August, suggesting that Moscow and Peiping have reached prior agreement on all important conference issues.

Zhukov and Vasilevsky absent from official Soviet functions

Soviet press reports have failed to mention either Marshal Zhukov or Vasilevsky in connection with several recent functions attended by the other members of the Soviet hierarchy. Both apparently were absent from the Supreme Soviet session, the air show, and recent Moscow receptions in honor of the East German delegation. The continued absence of these two first

deputy ministers of defense may reflect further maneuvering among the top leadership.

Post-Stalin Soviet economic trends continue

Through curtailment of long-range or uneconomic construction projects and streamlining of other economic operations and administrative machinery, the USSR apparently is attempting simultaneously to continue its over-all military expenditures at approximately the same level as in 1952, to maintain a high level of heavy industrial output, and to fulfill its promises for increased output of consumer goods.

The Soviet government has in the past two months given special emphasis to its announced policy of increasing the availability to the population of consumer goods. There are several indications that the Kremlin is beginning to carry out these promises.

EASTERN EUROPE

The Eastern European governments are continuing to initiate measures designed to improve living conditions and allay unrest. All the Satellites except Bulgaria and Czechoslovakia have issued decrees reducing the agricultural debts of both the private and collective farmers. Hungary and Rumania have also announced intentions to curtail their heavy industrialization plans in order to increase investments in agricultural and consumer good industries. Two major construction projects in Rumania and one in Hungary have been suspended, apparently for this purpose.

The only confirmed instance of serious resistance in Eastern Europe since the East German riots appeared in Czechoslovakia in early August. On 11 August the Czech minister of national supply ordered extensive special measures to suppress local uprisings which had broken out against local party and government officials in eastern Slovakia.

Yugoslav-Satellite border negotiations

Variations in the approach and attitudes of the neighboring Satellites in their frontier negotiations with Yugo-slavia suggest the absence of a coordinated policy on the details of the discussions. Yugoslav-Hungarian talks have progressed "in a not unpleasant atmosphere," according to a Yugoslav official, and the negotiators concluded an initial agreement on 28 August. Rumania and Albania, on the other

hand, are delaying and obstructing the course of negotiations.

Although Bulgaria agreed to negotiate early in July, the talks have not yet begun. Bulgarian-Greek frontier negotiations are progressing with no major obstacles.

East Germany

The equilibrium of the East German Communist position has been seriously threatened by the widespread response of the populace to the Western food program. In addition, the unrest and popular discontent germinated during the 17 June riots have continued as a latently explosive force. As a result, the primary concern of the government has been to keep order and to restore some measure of stability.

Internal party reorganizations and purges designed to strengthen the hard core of the Socialist Unity Party have continued. The government has reacted to the food program by imposing intermittent police controls, organizing an energetic propaganda campaign against food distribution, and threatening reprisals against individuals receiving packages. The East German regime has not been able, however, to impose the controls required to defeat the food program because it fears a popular uprising and is reluctant to present the West with a picture of oppression.

Attempts are being made to improve the consumer goods situation in the hope of placating the sullen populace. East German propaganda media have continually announced generous food shipments from the Soviet Union, and the granting of ruble and free currency credits to East Germany on 23 August will probably bring about an eventual improvement in the consumer goods supply. At the moment, however, there is little evidence that the food supply has been substantially increased, and it is possible that continued maladministration and inefficiency in distribution is negating much of the effort to improve the consumer goods situation.

The Soviet effort to enhance the prestige of the East German regime and strengthen the position of Ulbricht indicates that no change in rule is contemplated that would improve the prospects for talks on unity. Nevertheless, the East Germans have continued to call on their Western brethren to engage in unity discussions and have made several gestures, e. g., liberalization of their policies on interzonal travel and on the transit through the Soviet zone of West Berlin manufactured goods, moves which appear to be intended to improve the climate for negotiations between the two Germanys. At the same time, however, the strengthening of the East German regime in spite of the well-known West German refusal to deal with this government indicates the lack of sincerity behind the East German position on unity.

Soviet-East German negotiations

The 22 August statements concluding the Soviet-East German negotiations in Moscow appear designed immediately to influence the West German elections and in the longer run to lessen discontent and build-up the prestige of the regime in East Germany.

The promised release of some German prisoners being held for "war crimes" is the only concession affecting more than East Germany. The promise of economic assistance, the end of reparations, and other economic concessions indicate recognition of the economic sources of East German discontent highlighted by the 17 June riots. A serious intention to carry out an assistance program would lessen these economic causes but not the political reasons for dissatisfaction.

Ambassador Bohlen believes that the announcements proved beyond reasonable doubt that the USSR has decided to throw its full support behind the East German regime for the immediate future. He thinks the unrest since 17 June has forced a Soviet decision not to negotiate on Germany out of fear of leading from weakness.

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Sighting of B-47 type plane at Moscow

There have been two separate sightings recently of "large" Soviet aircraft at Ramenskoye airfield near Moscow. On 6 July Canadian and British air attache personnel sighted and photographed 7 or 8 "large" aircraft with vertical tails higher than those of surrounding TU-4's. The attaches believed them to be type-31 heavy bombers. On 30 July a US air attache sighted and photographed a "large" airplane with a US B-47 type tail, in addition to the previously sighted "large" aircraft.

Despite the credibility of the observers and the photographs, it is impossible to do more than speculate on the identity of either of the types of "large" aircraft. The attaches were over three miles from the aircraft

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The aircraft reported as type-31's might be one of the following: Type-31's as flown in the 1951 air show; TU-4 type aircraft with heightened tails similar to the tail of the US B-50; unmodified TU-4's, erroneously identified as type-31's

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TU-70 trans-

port aircraft having high vertical tails (although no windows were observed).

In order of likelihood, the aircraft with the US B-47 type tail may be either a turbo-prop powered type -31 in which the increased power necessitated installation of a much enlarged tail with fin sweepback as a substitute for a longer fuselage; or a new aircraft, possibly utilizing a fuselage similar to that of the type-31 but having jet engines and probably swept-back wings.

Comment on the Moscow air show

The display of a considerable number of new fighter aircraft in the recent Moscow air show, coupled with the fact that no new bomber was displayed, may be of possible significance with respect to estimates on the status of Soviet medium and heavy bomber development. A review of air show history reveals that, while the Soviets have displayed many prototype aircraft which were never placed into production, those which have reached production have been publicly exhibited prior to or coincident with entry into operational use. Thus, while it remains likely that new prototype Soviet bombers exist, the chances are good that new medium or heavy bombers were not available, at least in numbers commensurate with the rest of the 1953 show.

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FAR EAST

KOREA	25)

The armistice and political conference

President Rhee has taken no further steps to obstruct the armistice, and it is believed that he will continue to cooperate at least until after 90 days of political discussions. He is

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holding firm in his expressed determination to take unilateral action to unify Korea by force if the conference fails.

At the UN, the United States had the support of only three nations outside of Latin America (Greece, Nationalist China, Pakistan) in defeating the resolution for India's participation in the political conference. On the resolution inviting the USSR, the United States was successful in retaining the phrase "providing the other side desires it" in a 55-2-2 vote.

So far, the US, UK, Belgium, Philippines, South Korea, France, Canada, Thailand, Australia, Colombia and Turkey have indicated a desire to participate in the conference. The US has notified Peiping, through the Swedish embassy, that the UN proposes San Francisco, Honolulu or Geneva as the site for a conference to be convened on 15 October.

Communist propaganda

has been

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calling for a withdrawal of all foreign forces, with unification to be settled "by the Koreans themselves." This repeats the standard Communist theme used at the time of the 1946-47 US-USSR Joint Commission meetings and suggests the Communists may again put forth their plan for an interim government composed of the joint North-South legislatures which they would subsequently hope to dominate.

North Korean purges

The recent purges in North Korea were directed at the "domestic" faction of Communist leaders, most of whom were influential in the prewar South Korean Communist movement, and who were prominent in the unsuccessful subversion program. Although charged with a plot to overthrow the North Korean regime, it is more likely that they were eliminated because of their "nationalistic" views on the armistice or on the question of unification. The purges and a concurrent reshuffling of party posts has strengthened the Soviet faction's control at the expense of "domestic" elements, while the Chinese faction has remained generally in posts of secondary importance.

JAPAN

Soviet espionage incident

A Soviet patrol boat with a crew of four was seized on 8

August by the Japanese coast guard while engaged in an espionage operation.

Japan has 25X6

rejected a delayed demand by Soviet representatives for release of the crew and boat and have indicted the Soviet captain for illegal entry.

CHINA

Campaign against offshore islands abated

The Chinese Communist campaign against Nationalist-held offshore islands has abated temporarily, with no significant developments in the past month. Chiang Kai-shek is still interested in obtaining further moral and material support from the United States as a deterrent to Communist attacks on the islands. The Generalissimo is reported to be depressed by the failure of the Nationalist raid on Tungshan Island in mid-July.

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Possible attempt to improve foreign relations

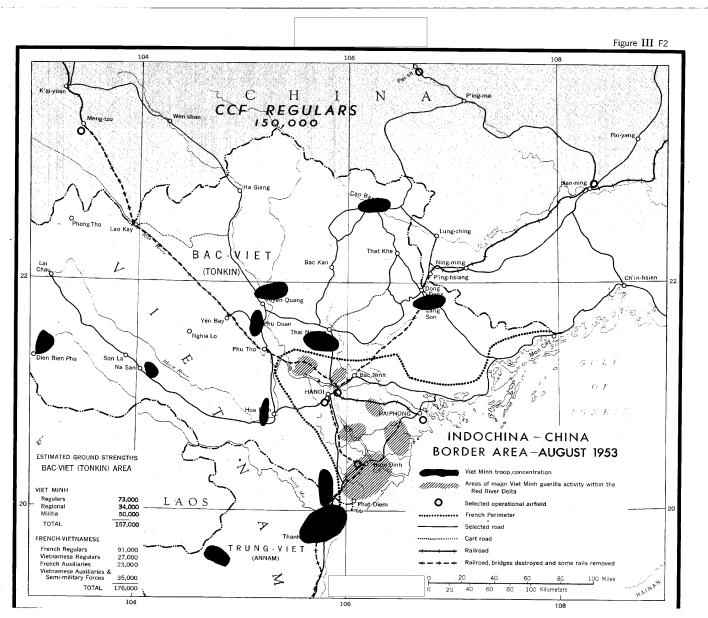
Certain lines in Peiping's recent propaganda suggest that Communist China, in the hope of gaining China's seat in the UN and inducing a reduction in Western trade restrictions, may follow the Soviet lead in attempting to improve relations with certain non-Communist countries without altering its basic hostility to the non-Communist world. Peiping may encourage the establishment of full diplomatic relations with seven countries which have recognized it but with which the Chinese Communists have not exchanged envoys, and it may make new overtures for recognition by certain other governments. However, the new British charge in Peiping has been there since 23 August without being received by Premier Chou En-lai or otherwise encouraged.

Status of Mao Tse-tung

In the two months since the Soviet announcement of Beria's fall, there has been a marked increase in Chinese Communist attention to the concept of "collective leadership" and a marked decline in Peiping's praise of Mao Tse-tung. Although Mao's position as leader of the Chinese Communist Party and

government appears secure, the Chinese have seemed to be withdrawing an earlier claim to an enhanced stature in the Soviet bloc for Mao and his regime.

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SOUTHEAST ASIA

Indications of direction of Viet Minh fall offensive

in which the Viet Minh will strike in their anticipated fa	11
offensive.	
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Extensive operations in Laos now seem less proba	ble
than earlier this summer	

The French have deduced from these negative indications regarding Laos that the Tonkin delta area will be the main theater of enemy operations this fall. Their concern over this possibility is heightened, moreover, by the marked deterioration in security conditions there, which resulted from the necessity during the last campaign season of diverting mobile reserve elements to northwestern Tonkin and Laos.

Status of negotiations for evacuation of Chinese Nationalists from Burma

Negotiations for the evacuation of Chinese Nationalist troops from Burma still have not progressed beyond the stage of discussion. Although the four-power committee in Bangkok 25X1

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has succeeded in drawing up a new evacuation plan, its proceedings continue to be marked by the stalling tactics of the Nationalist representative,

proposal for deleting from the evacuation plan the names of places in Burma to be turned over to the Burmese army. This development appears to contradict the Nationalist position that Li Mi alone is obstructing the evacuation effort, since it followed closely after the revelation that Li intended to retain his Mong Hsat headquarters even after the "evacuation." In addition, indications are accumulating that the Nationalists are still being supplied by both land and air. These developments suggest that Taipei at best is contemplating only a token withdrawal, despite statements by Nationalist officials to the contrary.

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The Burmese have all but given up hope that the Bangkok talks will result in positive achievement and are considering at least three courses of action. They plan to raise the issue again in the UN

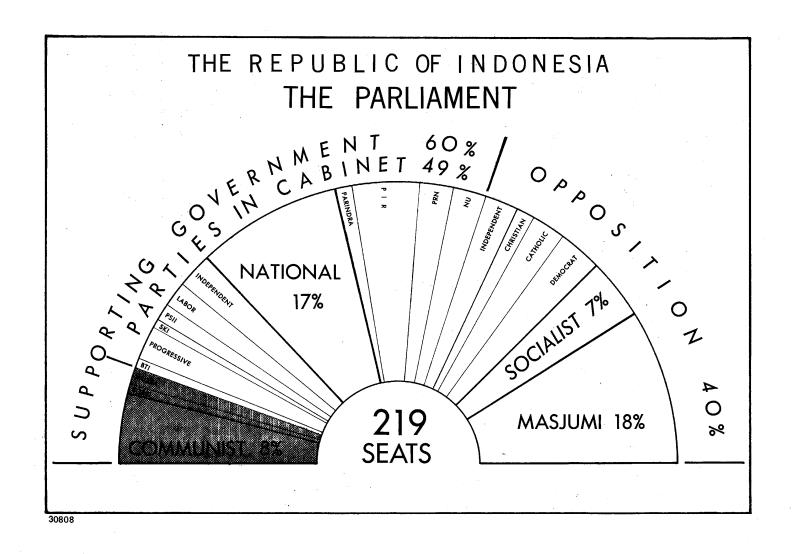
The American embassy

in Rangoon, however, recently reported that Burma's presentation may not be as bitter as had been anticipated. The Burmese are meanwhile proceeding with preparations for renewed large-scale operations against the Nationalists if the UN debate

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should prove fruitless. Finally, if both the UN appeal and military action fail to obtain satisfactory results, there is evidence that the Burmese may feel compelled to seek Chinese Communist assistance in eliminating the Nationalists.

Political developments in Indonesia

The chief political development in Indonesia since the installation of the new Communist-influenced cabinet on 1 August has been the presentation of the cabinet's policy statement to parliament. Although individual members of the cabinet have indulged in highly nationalistic remarks, the government's policy statement presented by Premier Ali Sastroamidjojo on 25 August, was relatively moderate and differed little from statements of former governments. This approach indicates that the leftists will try to avoid antagonizing conservative elements in the cabinet in order to preserve the government and thus gain time for infiltration into the government, the army, and the police.

So far anti-Communist elements in the army and parliament appear to have adopted a policy of watchful waiting.

Presidential campaign may endanger Philippine security

negotia-

tions are continuing between President Quirino's brother Tony, acting on behalf of the Liberal Party, and Huk leader Luis

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Taruc. The American embassy believes that if these negotiations result in a Huk "surrender," Philippine security will be endangered. The Huks would be provided an opportunity to further their current infiltration tactics. The chief objective of the negotiations is to achieve a political coup before the November elections.

An important recent development in the presendential campaign was Carlos Romulo's withdrawal of his candidacy on 21 August and the formation of a coalition of his Democratic Party with the Nacionalistas in support of Magsaysay. Of almost equal importance is the precariousness of Quirino's health and the possibility that Vice President Lopez, now running for the senate on the coalition ticket, may succeed to the presidency before November. Should he become president, Lopez might be in a position to reach a compromise with the Liberals, but it is possible that Liberal stalwarts may resort to extreme methods to prevent him from controlling the executive apparatus.





SOUTH ASIA

The situation in Kashmir

Despite official denials from New Delhi of involvement, the replacement on 9 August of Sheikh Abdullah as prime minister of Indian-held Kashmir by pro-Indian Ghulam Mohammad Bakshi represents a successful Indian attempt to regain control of a political situation that had been rapidly getting out of hand because of Abdullah's search for personal power through advocacy of independence or semiautonomy for the state.

Pakistani reaction to the coup was unusually intense, and Prime Minister Mohammad Ali requested an immediate meeting with Prime Minister Nehru. Talks between the two took place in New Delhi from 16 to 20 August, but none of the reported decisions differs materially from those which the two countries accepted as early as 1948. The minor changes announced on 19 and 20 August, one of which called for the appointment of a plebiscite administrator by the end of April 1954, were presumably made to permit Mohammad Ali to return to Karachi with a statement that progress had been achieved.

The Karachi press on 27 August, countering Indian press implications that the two prime ministers had agreed on appointing a new plebiscite administrator from a small neutral nation, announced that Pakistan would insist on the retention of Admiral Nimitz, who was accepted by both countries in 1950.

By 4 September, however, both India and Pakistan had learned that Admiral Nimitz had tendered his resignation, thereby creating a difficult situation for the Pakistani government and further complicating Indo-Pakistani relations.

The American embassy in Karachi believes that Mohammad Ali's prestige has been considerably lowered by the outcome of the New Delhi talks. The Indian position seems to have been strengthened. There is very little Pakistan can do to change the status quo.

Indian participation in Korean conference

During the week of 17 August a resolution proposing that India be seated at the postarmistice Korean political conference was introduced in the Political Committee at the special session of the seventh UN General Assembly. The ensuing debate found the United States, which opposed Indian participation, in opposition with its major European allies, primarily because of differing concepts as to the most effective size of the conference and whether it should be a "cross-" or "round-" table meeting. The resolution was passed in Committee I on 27 August by a vote of 27 for, 21 against, and 11 abstentions. Since it was obvious that in a succeeding General Assembly plenary session India could not gain the required two-thirds majority, India withdrew its candidacy on 28 August.

Indian nominee for UNGA presidency

India has announced Madame Pandit's candidacy for the

presidency of the eighth UN General Assembly, and the US has publicly supported her. The United States will not campaign on India's behalf.

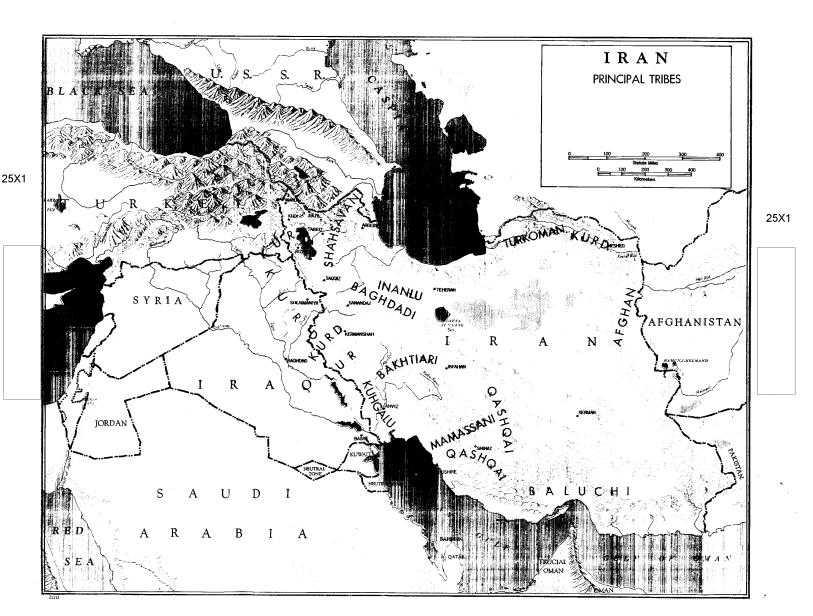
Prince Wan of Thailand is the only other important candidate at present. His strength, relative to Mme. Pandit's is not yet clearly determined. Pakistan has indicated it will nominate a candidate for one of the seven assembly vice presidencies instead of competing with India, as had previously been rumored.

Leftist-inspired unrest in Ceylon

During the week of 12 August, serious leftist-inspired rioting developed in Ceylon in connection with a protest strike against the government's reduction of food subsidies. It was the most successful demonstration to date of cooperation among the three Ceylonese leftist parties. The government was prepared for the strike and quickly controlled the situation. On 17 August parliament provided the government with more power than seemed necessary to cope with the situation, passing a bill enabling the government to enforce emergency regulations in anticipation of public disorders.

Oppsoition parties indicated that they intended to continue embarrassing the government on the rice subsidy issue by introducing a no-confidence motion in parliament on 1 September.

The government's majority defeated this motion easily by a vote of 59 to 26.



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NEAR EAST - AFRICA

The situation in Iran

The strong upsurge of popular and military reactions to Prime Minister Mossadeq's efforts toward limiting, if not removing, the monarchy in Iran enabled the shah's supporters on 19 August to take over the government and to place in power a regime which is moderately nationalist, pro-shah and firmly pro-US. On 23 August Zahedi announced the appointment of a slightly right-of-center cabinet, composed in part of old guard conservatives.

Prime Minister Zahedi moved immediately to consolidate his control of the country by instituting a rigorous campaign against the Communists, starting an extensive purge of Mossadeq's supporters from the army and the government, and by issuing a warning to restive tribesmen that the army would tolerate no attempt to achieve greater autonomy.

Apparently neither the prime minister nor the shah has made a serious attempt to solve the status of parliament, almost two-thirds of whose members had resigned before the coup. Without plenary powers or a functioning Majlis, Zahedi cannot settle the oil dispute or move ahead with a constructive legislative program. The prime minister lacks organized political support, and there have already been indications of dissension among his varied adherents.

Recognizing that Iran's most pressing problem is its empty treasury, both the shah and Zahedi have appealed to the United States for extensive financial aid.

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When in-

formed on 3 September of the amount of aid, Zahedi showed disappointment. Serious attention is also being given to the oil problem. There is, however, no indication that the prime minister is either able or willing to move contrary to the strong nationalist sentiment which still prevails in Iran on this issue.

On 3 September Iran negotiated a supplementary trade agreement with the USSR, presently Iran's largest customer. Rumors arose in Tehran on 1 September that Soviet ambassador Lavrentiev had attempted to commit suicide, but Ambassador Henderson has been unable to ascertain the truth.

American bases in Greece

The Greek government on 14 August "accepted unreservedly" the United States proposal for establishing military bases in Greece.

Orbit interest in reopening relations with Greece

Indications since early August that Albania and Bulgaria wish to resume normal relations with Greece follow Russia's decision in July to send an ambassador to Athens and may be part of a new orbit effort to weaken the Yugoslav-Greek-Turkish defense organizations.

Greek-Yugoslav relations

Greek reaction to recent Yugoslav press complaints over new Greek efforts to resettle the Slav-speaking minority in northern Greece has been firm but essentially friendly. The protests seem unlikely to jeopardize the newly initiated Greek-Yugoslav-Turkish defense cooperation.

Greek economic situation

The tight Greek economic situation has been further strained by the serious earthquakes which struck the Ionian Islands in late July and early August. Greek pressure for more American aid or for the transfer of funds now allotted to military aid to the economic field may be forthcoming.

Change of government in Morocco

The forcible French removal of the sultan of Morocco on 20 August, contrary to information from official French sources, was the culmination of pressures from French officials and vested interests unwilling to accept any self-government for Moroccans. Paris seems to have surrendered to a defiant bureaucracy in Morocco rather than to a threat of civil war between rival Moroccan factions.

Ostensible American approval of this change has diminished the popularity of the United States among Moroccan natives. Having looked to the United States for encouragement, Moroccan nationalists are now embittered and are more likely to accept Communist assistance. Strict French security measures have

thus far maintained order, but have not wiped out the will to resist. If serious disorders occur, American bases and personnel will probably be attacked.

French suspicions regarding American intentions in Morocco have probably increased, because of expressions of American concern about the effects of dethroning the sultan, as well as the amendment to the current Foreign Operations Administration appropriation designed to cut off aid to France unless American treaty rights in Morocco are strictly observed. The French are likely to hamper American military and commercial activities in the area. They will also increase pressure for the renunciation of US extraterritorial rights under which Americans in Morocco are exempt from local jurisdiction. Since 1912 France has repeatedly sought to annul these rights, but the World Court ruled in August 1952 that they were valid.

Despite French declarations that their policy envisages eventual Moroccan independence, the administrative reforms now under consideration in Paris represent virtually no change from direct French control. The only new step is the proposed creation of seven provincial advisory bodies, a quasi-decentralization of administration. The position of French colonists and vested interests, however, is for the time being considerably more secure, because they can exert effective pressure at all governmental levels.

Unrest in central Africa

Nyasaland riots demonstrate the basic African hostility to the federation plan for British central Africa, scheduled to take effect on 6 September.

South African politics

Prime Minister Malan of South Africa has been temporarily stymied in the furtherance of his racial segregation program by his inability to secure the necessary two-thirds majority to amend the constitution.

Arab States

Anglo-Egyptian talks

British and Egyptian representatives engaged in a series of informal talks in Cairo between 28 July and 3 September in an effort to establish a sufficient area of agreement for resumption of formal negotiations on the Suez base.

little progress was made on

the questions of the duration of the agreement and the schedule for the withdrawal of British troops.

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The failure

of the Pakistan and Indian prime ministers to support the Egyptian position on the Suez case during their visits to Cairo in June is also considered to have contributed to the regime's desire to reopen negotiations with the British.

As a result of the informal talks, general agreement was reached on a formula for future availability of the Suez base in the event of an attack against any Arab state. Egypt refuse, however, to accept the British suggestion that an attack on Turkey also be considered cause for a return to the base.

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Colonel Nasr has indicated that the political situation in Egypt makes it impossible for the military regime to accept more than a five-year agreement, with technicians to remian for three years only.

the Egyptians maintain that the duration date must start from

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the date of signing the agreement.

Despite narrowing of disagreement on many important issues, there is a real danger of a break over the "duration" question.

No breakdown in the talks, however, is expected until after General Robertson, British military delegate, returns to Cairo about 14 September after holding consultations in London.

Ratification of Anglo-Libyan treaty

The Anglo-Libyan treaty, already previously approved both by the cabinet in Tripoli and the House of Deputies, encountered unexpected difficulties on 31 August when the Senate indefinitely postponed further consideration of the agreement. This delay was made ostensibly to await British assurances than London's annual payment of 1,000,000 pounds for Libyan economic development as provided by the treaty would be regarded as Libya's contribution to the international Libyan Development Agency, thus assuring Libya rather than Britain control over the use of the money. There is a danger that, as a result, Prime Minister Muntasser might resign and the treaty die.

Rumors of forthcoming change in Iraqi premiership

Reports continue that Prime Minister Midfai will soon resign, and that his most likely successor is elder statesman Nuri Said, for many years premier and now defense minister. Such a cabinet change would again bring into the public eye the pro-Western rightist group which has long dominated Iraqi political affairs. Nuri Said has played a prominent role in

the Midfai cabinet since it was formed last January following an election which installed a pro-Nuri parliament. Rumors last spring that Midfai would yield the premiership to Nuri or a Nuri-approved candidate increased after King Faisal II acceded to the throne on 2 May.

Jordanian-Israeli tension in Jerusalem area

The American embassy in Amman reported on 4, 12, and 17

August that the Arab Legion expected an early attack by Israeli
military forces against Mt. Scopus in the Jerusalem region.

While American observers believed the Jordanian fears were
exaggerated, the reports considerably increased tension in
the area.

LATIN AMERICA

Guatemala

Communist influence in the Guatemalan government has continued to rise as opposition anti-Communist groups remain ineffective. Concurrently, the pressure against the three major private US corporations in Guatemala is being increased. On 12 August the government initiated expropriation proceedings against about 70 percent of the United Fruit Company's Atlantic coast lands. A strike by the workers of the US-owned International Railways of Central America is imminent. The government representatives currently in control of the Guatemalan Electric Company, a subsidiary of the Electric Bond and Share Company of New York, have declared that their review of that firm's records indicates that the wage demands of its employees are justified.

Panama

The elaborate send-off given Panama's delegation to the talks on Canal Zone treaty revision beginning in Washington on 10 September illustrates the great popular attention focused on this issue. While President Remon's 28 to 30 September visit to Washington will reinforce his domestic prestige at least temporarily, a failure to obtain some concessions from the US could seriously weaken his regime in favor of the ultranationalist opposition.

Cuba

Since 6 August, when a "public order law" providing penalties for defamation of the government went into effect in Cuba, President Batista has instituted the most severe repressive moves against opposition elements since he came to power in March 1952. Enforcement of the law has been directed pointedly against Communists, although persons of all political affiliations have been arrested and the Communist Party as such has still not been outlawed. The law is to be effective until 4 November unless Batista suspends it earlier by further decree, as he has promised. Its enforcement has undoubtedly increased popular resentment against the regime. In view of their present state of disorganization, however, revolutionary groups may be unable to exploit this resentment, at least for some months to come.

Chile

Chile's financial crisis has continued to worsen as unsold copper stocks continue to accumulate. The 21 August announcement that Chile had resolved to amplify its political and commercial relations with the rest of the world, that is, the Orbit, appears to have been mainly a threat designed to influence the copper talks in Washington.

Bolivia

Threats to the stability of the Nationalist Revolutionary Movement's government have steadily increased. The continued

low price of tin, the sale of which must pay for three fourths of Bolivia's imports, has accentuated the financial crisis and even made questionable the country's ability to go on importing sufficient food. The government's political stability is increasingly threatened both by growing Communist influence, now concentrated on the new agrarian reform program, and by possible landowner defections from the party to support a rightist coup.

WESTERN EUROPE

The stability of the Laniel government

The Laniel government was endangered during August when the spontaneous strikes in various government services over prospective economy decrees developed into a widespread drive for satisfaction of labor's long-standing grievances.

The actual decrees were less severe than labor had expected, and Laniel succeeded in gaining a back-to-work call from the non-Communist union representatives by promising a review of minimum wages. The Communist-led General Labor Confederation unexpectedly gave in and dropped a general strike appeal.

The government was then able to forestall a special session of the National Assembly, where debate would have threatened Laniel's continued tenure. A new demand for a special session received almost no non-Communist backing.

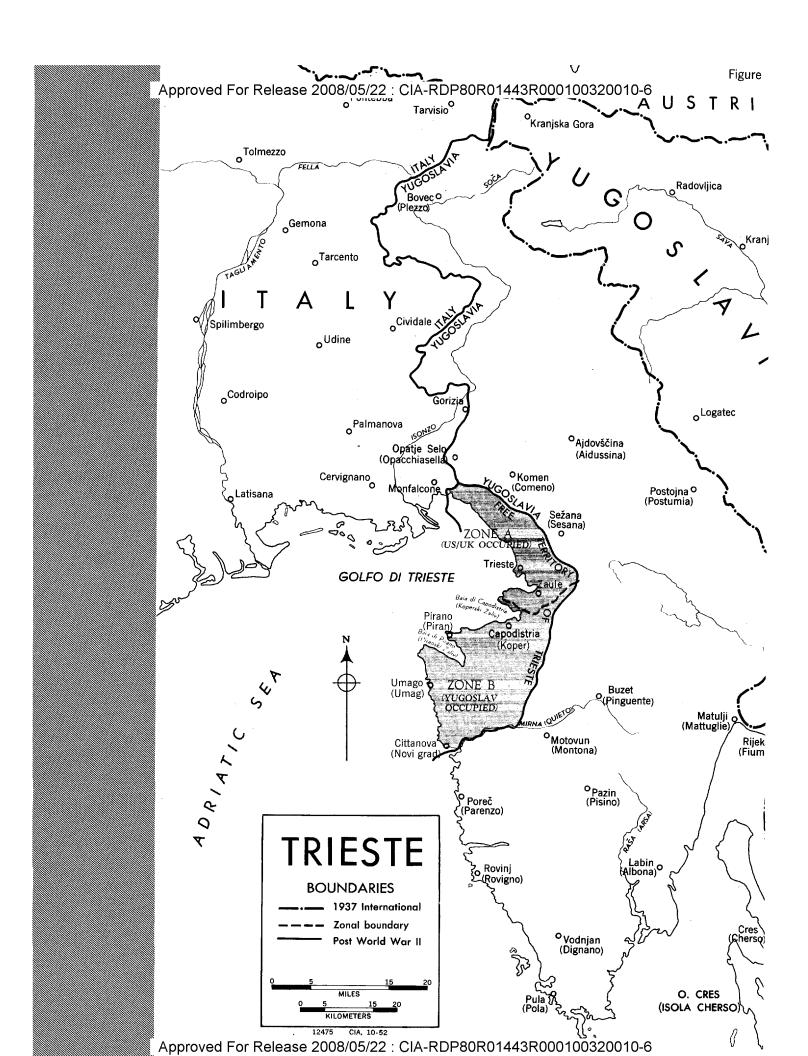
At the end of August the government announced 10 percent reductions in retail prices of meat and an intensified campaign against tax evaders. Early in September the government announced a four-step program calling for further food price reductions through elimination of food taxes, additional budgetary cuts, industrial production expansion through relaxation of credit controls, and a reconsideration of wage

scales. Working class discontent remains high, however, and a new and more violent labor outburst is likely unless concrete concessions are offered by 12 October, when the National Assembly reconvenes.

The formation of the Pella provisional government in Italy

Giuseppe Pella, a conservative Christian Democrat noted for his controversial "defense of the lira" policy while finance and later budget and treasury minister, was apparently willing to make greater concessions to the now dominant left wing of his party than was either De Gasperi or Piccioni. Pella's cabinet excludes those rightist Christian Democrats most obnoxious to the two most important of the other center parties, the Liberals and Social Democrats; it includes three prominent "left-wing" or reformist Christian Democrats in the key Ministries of Defense, Interior and Education. Left-wing control of the latter post is particularly significant, since it represents a setback for Catholic Action forces whose prominence in earlier cabinets had irritated the anti-clericals.

Pella's program as presented to the Italian parliament appeals to a wider range of political groups. It praised the Atlantic Pact, demanded a conservative approach to the budget, and a reform of the bureaucracy, but also advocated



amnesty for political crimes, abrogation of last spring's unpopular electoral law, and increased trade with Eastern Europe. In general Pella's evident effort to reflect the leftward swing of the electorate in the June elections suggests that he may attempt to prolong the life of his caretaker government once its immediate task of getting the budget through parliament has been accomplished.

Trieste

The latest move in the current crisis over Trieste is
Marshal Tito's 6 September speech. Its terms were mild and
objective, and the occasion passed without immediate violence,
either along the border or in the Free Territory.

In his speech Tito reverted to an ostensibly uncompromising position by stating that:

- (1) Trieste city should be internationalized;
- (2) the remainder of Zone A and all of Zone B should go to Yugoslavia;
- (3) previous compromise suggestions for a condominium or a division of the territory should be forgotten.

By these proposals Tito evidently hopes at the least to prevent further concessions to Italy in Zone A, strengthen his bargaining position generally, and improve his chances of getting the United States and Britain to impose some entirely new solution on Italy.

At

It is possible that he hopes actually to get Zone A internationalized. At worst, he can continue to sit tight in possession of Zone B and employ the threat of annexation to block concessions to Italy in Zone A.

No Yugoslav troops have been moved to the frontier and in his speech Tito implied that none will be moved unless there is an Italian-inspired incident.

25X1

Tito evidently believes that at the moment he is leading from strength. In addition to his possession of Zone B, Yugoslav-Western military collaboration is becoming a reality. The Western powers have implied to him that this collaboration is of paramount importance.

25X6

the same time, Tito can probably see his bargaining position weakening in the long run as a Soviet-inspired trend toward relaxation of East-West tensions develops.

The immediate unofficial Italian reaction to Tito's speech was sharply unfavorable. Premier Pella is expected to continue his previous firm stand in a speech scheduled for 13 September.

Pella has taken a consistently strong position since the current crisis began on 29 August. Besides making the minor military moves mentioned above, he told the American embassy that he would resign if Yugoslavia annexed Zone B and Italian troops were prevented by the Anglo-American occupation forces from taking over Zone A. He added that such a move by Yugoslavia would make it "most difficult" for Italy to remain in NATO. If, on the other hand, Washington helped Italy to get a favorable solution on Trieste, other international questions such as EDC and US military bases in Italy would be resolved without much difficulty.

What Pella might be willing to settle for was indicated in a 3 September conversation with Ambassador Luce in which he reiterated that Trieste was the big issue confronting the Italian people. He emphasized a solution based on a plebiscite and the establishment of a continuous ethnic line, but did not rule out the "provisional" solution. This would permitt Italy to occupy and administer Zone A without relinquishing its claims to Zone B.

25X1

West German elections

On the basis of the official final election returns Chancellor Adenauer received an unexpected 45.2 percent of the popular vote, a gain of 14 percent over his 1949 Bundestag vote. His Christian Democratic party will command almost exactly half of the 487 seats in the new Bundestag. In alliance with the former coalition parties and the refugee party, which supports his integration policies, he will command slightly better than two-thirds. This strength will make possible an amendment to the basic law, thus permitting West German rearmament, should the Constitutional Court object to the Bonn and Paris treaties.

Adenauer's success results in the first instance from his personal prestige and his achievement in restoring Germany to a respected position. Important contributing factors are the high level of German prosperity, a general dislike of all forms of radicalism, his defiance of the USSR, and at least some popular approval of his policy of allying the Federal Republic closely with Western Europe and the United States.

With four years of unchallenged legislative power facing him, Adenauer will be able to adopt exceedingly flexible

policies to suit his needs. American officials in Bonn may, however, find him harder to deal with now, since the election returns represent a personal mandate and may encourage him to become even more independent of foreign advice.

The chancellor is emotionally attached to European unity and will almost certainly support the EDC in the immediate months ahead. If, however, the French government has not acted affirmatively on the Bonn and Paris treaties by next spring, Adenauer may then push for another solution on rearmament which would give West Germany greater independence and allow him to play the role of the leading stateman of the Continent.

endum on EDC. It is clear, nevertheless, that fresh impetus has been given the general concept of European integration. The West German Constitutional Court, which is now considering the constitutionality of the Bonn and Paris treaties, can be expected to interpret the overwhelming Christian Democratic plurality as national approval of the treaties, and hence be loathe to overturn this referendum by an unfavorable decision. Even if the court should reject the treaties, the new Bonn government could almost certainly muster the two-thirds parliamentary vote necessary to amend the constitution.

The Social Democratic Party's share of the vote was less that one percent below its 1949 mark of 29 percent but fell far short of its expectations. Extensive changes in the party may now occur, possibly including replacement of Erich Ollenhauer, the present party chairman, by one of the moderate leaders not associated with all-out opposition to Adenauer's Western integration program. In any event, the party will probably now focus its political efforts on domestic issues, rather than on foreign policy.

A notable feature of the election was the collapse of all extremist parties, none of which will be represented in the Bundestag.

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TOP SECRET